

Countdown to retirement

If you retire at 60 years of age and remain fit and healthy, it is not inconceivable that you could live for another 30 years. That is a long time to rely on a pension as a main source of income, so it is important to put plans in place to ensure that you are able to maintain the standard of living you desire in retirement.

How much will you need in retirement?

Research by Wesleyan Medical Sickness revealed that the average annual amount hospital doctors think they will need in retirement is £44781. However, many people overestimate their desired retirement income, as major expenditure, such as mortgage repayments or paying for a child's education, may have come to an end.

Everyone's retirement plans will be different and how much you will need will depend on your own circumstances and requirements. Ask yourself what kind of lifestyle you want in retirement – are you planning to travel more or do you prefer a quieter outlook? Try to estimate what your plans are likely to cost and whether your pension income will cover them.

The earlier you start thinking about how much you need, the better as you will be able to determine whether your NHS pension will cover this. If you think there will be a shortfall, you may want to supplement your retirement income with additional contributions, taking out a personal pension or paying into other types of long-term investment, such as an individual savings account.

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As you approach retirement there are a number of steps you can take to make sure your plans are on track.

7–10 years from retirement

By visiting the NHS website (www.nhs.uk) you will be able to calculate how much you are likely to receive from the NHS Pension Scheme. It will

Wesleyan Medical Sickness provides specialist financial advice for doctors
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also confirm which section of the NHS Pension Scheme you are in.

If you joined the NHS Pension Scheme after 1 April 2008, you will be a member of the 2008 section. Members who joined before this could be in either section, as they were given a one-off option to transfer all their pension benefits to the 2008 section. This could impact the benefits you receive.

During this stage of your career, you are likely to be at the peak of your earning power, with the possibility that the contributions you are making to your pension are steadily increasing. This means you need to be aware of how much you are contributing to your pension as there are limits to how much you can save into a pension each year.

There have been significant changes to pension taxation in recent years. The annual allowance (the total amount you can save into your pension each year with tax relief) has come down to £50 000, and will reduce again to £40 000 in April 2014. There is the option to 'carry forward' any unused annual allowance from the previous 3 years.

Whether or not you exceed the annual allowance will be determined by the yearly increase in your NHS pension, including any additional pension or added years that you buy, and the amount you contribute to private pensions as well as any contributions made by someone else on your behalf, such as employers.

If you exceed the annual allowance, and do not have any unused allocation to carry forward from the previous three tax years, you will be taxed on any amount you contribute above the limit at your marginal rate of tax.

3–5 years to retirement

If you are relying on any savings and investments to help with your retirement income, now is the time to review your portfolio.

You might want to reduce the investment risk of your assets to protect against sudden market movements, while using any spare cash to reduce outstanding debts such as mortgages, loans or credit cards. Alternatively, you may prefer to use the

lump sum payment from your NHS pension to cover these debts. However, it should be noted that the higher the lump sum you take, the lower the pension you receive will be.

You should have been monitoring how much you have been saving into your pension throughout your career, but this close to retirement it is important to see whether the total you have saved will be impacted by the lifetime allowance.

This is the total amount you can save into a pension tax efficiently before you retire and is currently £1.5 million. It will reduce to £1.25 million in April 2014. While this may sound like a lot of money, it is possible to breach the limit if you have a long period of service under the NHS Pension Scheme, a history of high contributions to it and large funds in a private pension scheme.

If you exceed the lifetime allowance, there is a special tax charge on the excess above the amount when you take benefits. This would be charged at 55% if the excess is taken as a lump sum or 25% if it is taken as an income.

One year to retirement

The final few months to retirement are the time to make sure you get everything ready for the day you stop working.

As well as arranging to take your NHS pension, you may be looking at what to do with any personal pension arrangements you have made. Your options could include buying an annuity, which guarantees a regular income for life, or taking income drawdown, where an income is paid directly from your pension fund, or simply leaving your plans as they are until a later date.

Conclusions

You should regularly review your retirement plans to ensure they keep pace with changes in your personal and professional circumstances throughout your life.

Talk to a financial adviser with expertise of the medical profession who understands retirement savings and the NHS Pension Scheme to help you stay on track. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.